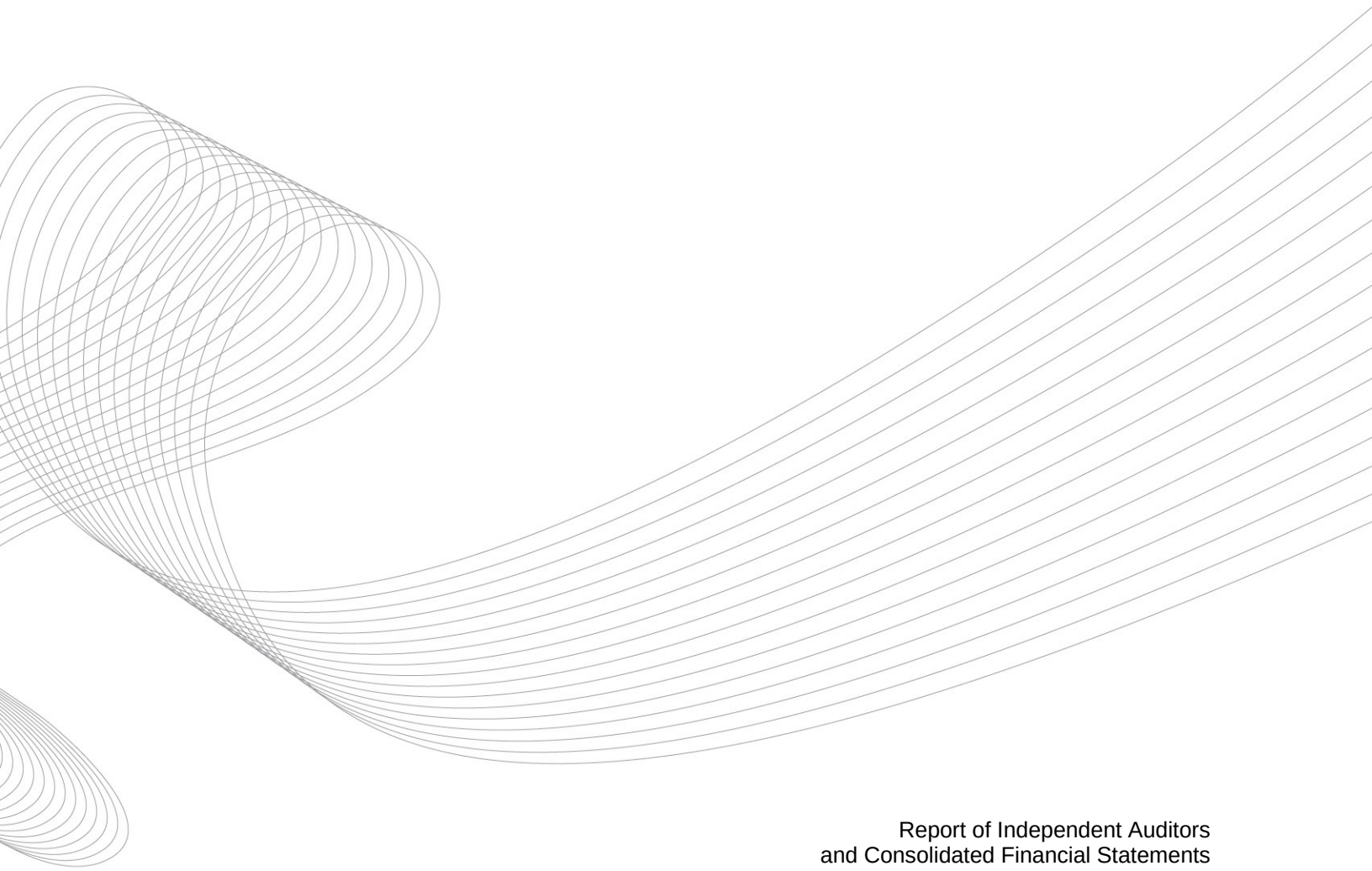

Report of Independent Auditors
and Consolidated Financial Statements
with Required Supplementary Information for

Antelope Valley Healthcare District

June 30, 2015 and 2014

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Antelope Valley Healthcare District

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Antelope Valley Healthcare District (the "District") as of and for the years ended June 30, 2015 and 2014, and the related notes to the consolidated financial statements, which collectively comprise the District's basic consolidated financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the California Code of Regulations, Title 2, Section 1131.2, State Controller's *Minimum Audit Requirements* for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Antelope Valley Healthcare District as of June 30, 2015 and 2014, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 10 to the financial statements, effective July 1, 2014, District adopted the requirements of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68.* The beginning net position has been adjusted for this change. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 10 and the schedules of funding progress for the District's postretirement health plan, schedule of changes in the net pension liability and related ratios and schedule of contributions for the defined benefit pension plan, on pages 49 through 51, be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise Antelope Valley Healthcare District's basic consolidated financial statements. The consolidating schedules on pages 52 through 57 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements.

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The consolidating schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating schedules are fairly stated, in all material respects, in relation to the basic consolidated financial statements as a whole.

Moss Adams LLP

Los Angeles, California
November 24, 2015

This section of Antelope Valley Healthcare District's (the District) financial statements presents management's discussion and analysis of the financial activities of the District for the fiscal years ended June 30, 2015, 2013, and 2012. We encourage the reader to consider the information presented here in conjunction with the financial statements as a whole.

Introduction to the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's audited financial statements. This annual report is prepared in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The required financial statements include the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. Notes to the financial statements, supplementary detail and/or statistical information, and this summary support these statements. All sections must be considered together to obtain a complete understanding of the financial picture of the District.

Statement of Net Position

This statement includes all assets and liabilities using the accrual basis of accounting as of the statement date. The difference between the two classifications is represented as "Net Position"; this section of the statement identifies major categories of restrictions on these assets and reflects the overall financial position of the District as a whole.

Statement of Revenues, Expenses, and Changes in Net Position

This statement presents the revenues earned and the expenses incurred during the year using the accrual basis of accounting. Under the accrual basis, all increases or decreases in net position are reported as soon as the underlying event occurs, regardless of the timing of the cash flow. Consequently revenues and/or expenditures reported during this fiscal year may result in changes to cash flows in a future period.

Statement of Cash Flow

This statement reflects inflows and outflows of cash, summarized by operating, capital, financing, and investing activities. The direct method was used to prepare this information, which means gross rather than net amounts were presented for the year's activities.

Notes to the Financial Statements

This additional information is essential to a full understanding of the data reported in the financial statements.

The District is a political subdivision of the state of California organized and existing under the provisions of the Local Health Care District Law of the state of California. The District is located in Lancaster, California, and is governed by a five-member Board of Directors elected by voters within the District. Unless otherwise indicated, amounts presented in management's discussion and analysis are in thousands.

The District's Net Position

The District's net position represents the difference between its assets and liabilities reported in the statements of net position. The District's net position decreased by $44,718 or 38.5% in 2015 over 2014, but increased by $339 or 3.0% in 2014 over 2013 as shown in Table 1. The primary reason for the decrease in 2015 was due to an increase in the net pension liability of $57.0 million. The District adopted the provisions of GASB No. 68 effective July 1, 2014 and recognized a cumulative effect of change in accounting principle of $51.6 million to increase the net pension liability. The remaining $5.4 million increase in the net pension liability is the result of increases in service cost and interest, offset by employer contributions and net investment income on plan assets.

Table 1: Assets, Liabilities and Net Position as of June 30 (in thousands):

	2015	2014	2013
ASSETS			
Patient accounts receivable, net	$ 51,006	$ 51,858	$ 48,954
Other current assets	74,797	69,188	78,150
Capital assets, net	174,403	178,428	169,273
Other noncurrent assets	69,454	71,502	71,575
Total assets	369,660	370,976	367,952
DEFERRED OUTFLOWS OF RESOURCES	4,025	-	-
Total assets and deferred outflows of resources	$ 373,685	$ 370,976	$ 367,952
LIABILITIES			
Long-term debt (including current portion)	$ 123,455	$ 130,486	$ 135,684
Other current and noncurrent liabilities	178,906	124,447	116,564
Total liabilities	302,361	254,933	252,248
NET POSITION			
Net investment in capital assets	64,683	62,017	53,044
Restricted, expendable	718	689	690
Restricted, nonexpendable	459	535	561
Unrestricted	5,464	52,802	61,409
Total net position	71,324	116,043	115,704
Total liabilities and net position	$ 373,685	$ 370,976	$ 367,952

The following is an explanation of the significant changes between fiscal years as show in Table 1:

The District's Net Position (continued)

Changes from fiscal 2014 to 2015

Patient accounts receivable, net decreased $852 or 1.6% from 2014 to 2015 mainly due to a shift in payor mix and slower payments from certain commercial payers. Within the change in payor mix, the District experienced an increase in patients qualifying for governmental programs in 2015 as compared to 2014 and a shift from traditional Medicare and Medi-Cal to managed care plans. Charity care write offs totaled $10,250 in 2015, a decrease of 22.2% from 2014.

Other current assets increased $5,609 or 8.1% from 2014 to 2015 was due to 1) an increase in cash of approximately $8,076 (Supplemental Funding and cost report recoveries increase of $10,726 over 2014) and 2) a decrease in amounts due from other receivables of $1,607 (Healthy Way LA) that were received during the year ended June 30, 2015.

Capital assets, net decreased $4,025 or 2.3% from 2014 to 2015. This was due to higher depreciation as a result of the District's Master Plan and other projects that were placed into service in 2015. These projects included the opening of the Institute for Heart and Vascular Care Center, improvements to the operating room HVAC system, and payroll and human resources software implementation.

Other noncurrent assets decreased $2,048 or 2.9% from 2014 to 2015. This was due to use of Local Agency Investment Fund (LAIF) funds used to fund the Intergovernmental Transfer (IGT) program.

Deferred outflows of resources – In connection with the implementation of GASB No. 68 effective July 1, 2015, the District reported deferred outflows of resources of $4.0 million as of June 30, 2015 related to net differences between projected and actual earnings on pension plan investments.

Changes from fiscal 2013 to 2014

Patient accounts receivable, net increased $2,904 or 5.9% from 2013 to 2014 mainly due to a shift in payor mix and slower payments from certain commercial payers. Within the change in payor mix, the District experienced an increase in patients qualifying for governmental programs in 2014 as compared to 2013 and a shift from traditional Medicare and Medi-Cal to managed care plans. Charity care write offs totaled $13,181 in 2014, a decrease of 19% from 2013.

Other current assets decreased $8,962 or 14.9% from 2013 to 2014 due to 1) a decrease in cash of approximately $5,400 to support the increase in capital assets and 2) a decrease in amounts due from third party payors which was primarily due to a one time Budget Neutrality settlement form the Center for Medicare and Medicaid Services (CMS) that was received during the year ended June 30, 2014.

Capital assets, net increased $9,155 or 5.4% from 2013 to 2014. This was due to the continued construction and renovation under the District's Master Plan and other projects. These projects include the opening of two hybrid catheterization labs, grounds repair and a new front canopy and the construction of new Magnetic Resonance Imaging and CT scan suites in the hospital.

The District's Net Position (continued)

Other noncurrent assets decreased $1,098 or 1.5% from 2013 to 2014. This was due to use of bond funds for the District's Master Plan renovation projects.

Operating Results and Changes in the District's Net Position

Table 2: Operating Results and Changes in Net Position for the years ended June 30 (in thousands)

	2015	2014	2013
OPERATING REVENUE			
Net patient service revenue	$ 394,252	$ 349,333	$ 350,481
Other	7,374	10,617	4,344
Total operating revenues	401,626	359,950	354,825
OPERATING EXPENSES			
Salaries and wages and employee benefits	224,477	214,881	207,689
Purchased services and professional fees	51,680	49,242	50,310
Other operating expenses	102,928	82,836	79,626
Depreciation and amortization	14,503	12,521	12,679
Total operating expenses	393,588	359,480	350,304
OPERATING INCOME	8,038	470	4,521
NONOPERATING REVENUES (EXPENSES)			
Grant revenue and contributions	3,690	3,979	4,054
Investment income	986	1,242	506
Interest expense	(5,798)	(5,352)	(5,124)
Total nonoperating expenses, net	(1,122)	(131)	(564)
Change in net position	$ 6,916	$ 339	$ 3,957

The following is an explanation of the significant changes between fiscal years as show in Table 2:

The first component of the overall change in the District's net position is its operating income that is generally the result of the difference between net patient service revenue and other operating revenues and the expenses incurred to perform those services. Operating income increased by $7,568 or 1,610.2% in 2015 as compared to 2014 and decreased $4,051 or 89.6% in 2014 as compared to 2013. The primary components of the changes in operating income are as follows:

Changes from fiscal 2014 to 2015

Net patient service revenue for the District increased by $44,919 or 12.9% in 2015 compared to 2014. The District reported a net increase in adjusted patient days of 2.6% from 2015 compared to 2014 and realized a 9.3% increase in net patient service revenue per adjusted patient day. The District recognized revenue from various supplemental funding sources including the IGT Program, Disproportionate Share funding, and the Hospital Fee Program totaling $25,681 and $20,770 in 2015 and 2014, respectively.

Operating Revenue, Other for the District decreased by $3,243 or 30.5% in 2015 compared to 2014. In 2015, the District received $3,292 to support the electronic medical record investment via both Medicare and Medi-Cal Meaningful Use payments compared to $6,409 received in 2014. The Meaningful Use program became available to the District in 2014. The District expects to earn lesser amounts in 2016 as implementation of approved electronic medical records projects continue.

Operating expenses increased $34,108 or 9.5% in 2015 as compared to 2014. $9,596 of the increase is primarily due to higher levels of staffing and increased employee benefit expenses. The remaining change was primarily due to an increase in Other Operating Expenses of $20,092 or 24.3% due largely to increased IGT payments of $19,314 in 2015 compared to $5,621 in 2014. Medical supply costs were also up due to higher patient volume and certain high cost supplies.

Changes from fiscal 2013 to 2014

Net patient service revenue for the District increased by $1,148 or 0.3% in 2014 compared to 2013. The District reported a net decrease in acute patient days of 9.6% from 2014 compared to 2013 and realized a 5.8% increase in net patient service revenue per adjusted patient day. The District recognized revenue from various supplemental funding sources including the IGT Program, Disproportionate Share funding, and the Hospital Fee Program totaling $28,121 and $32,288 in 2014 and 2013, respectively. The decrease in supplemental funding is due primarily to delay in approval from CMS on the 2014 Hospital Fee Program preventing the District from recognizing such revenue until final approval is obtained.

Operating Revenue, Other for the District increased by $6,272 or 144.4% in 2014 compared to 2013. In 2014, the District received $6,115 to support the electronic medical record investment via both Medicare and Medi-Cal Meaningful Use payments. The Meaningful Use program became available to the District in 2014.

Operating expenses increased $9,176 or 2.6% in 2014 as compared to 2013. $7,192 of the increase is primarily due to higher levels of staffing and increased employee benefit expenses. Actual non-productive and registry expenses were down year to year by $4,163 or 14.2%. The remaining change was primarily due to an increase in contract labor (including registry), an increase of professional fees (including on-call fees paid to physicians), and an increase in legal fees (including fees associated with union negotiations). Medical supply costs were also up due to higher use of implants and other high cost supplies.

Formatting Differences to Consider When Comparing the District's Statement of Revenues, Expenses, and Changes in Net Position to Other Nongovernment Hospitals

The Governmental Accounting Standards Board ("GASB") requires a grouping on the statements of revenues, expenses, and changes in net position, which grouping differs from other non-governmental hospitals as follows: non-operating revenues, net includes interest expense, which, in non-governmental hospitals is grouped as an operating expense. This GASB grouping requirement makes District hospitals conform to other government entities, such as cities and counties. Because of this difference, the District's published statements of revenues, expenses, and changes in net position is not readily comparable to other non-governmental hospitals because the GASB grouping requirement does not apply to non-governmental hospitals. This must be considered in order to compare the District to other non-governmental hospitals.

The District's Cash Flows

Net cash provided by operating activities increased $13,745 or 84.6% from 2014 to 2015 mainly due to an increase in patient related collections, the receipt of Intergovernmental Transfer (IGT) funds, and third party payor settlements. In 2014, net cash provided by operating activities increased $12,781 mainly due to the increase in net patient accounts receivable and changes in estimated third party payor settlements. In 2013, net cash provided by operating activities decreased mainly due to the increase in patient accounts receivable and changes in estimated third party payor settlements.

Capital Asset and Debt Administration Capital Assets

At the end of 2015, 2014 and 2013, respectively, the District had $174,403, $178,428, and $169,273 in capital assets, net of accumulated depreciation, as detailed in Note 6 to the basic consolidated financial statements. The District purchased new equipment which included information technology, surgical equipment and other minor infrastructure projects costing $4,731 in 2015, $1,963 in 2014 and $1,697 in 2013. Also during 2015, 2014 and 2013, the District expended $5,863, $19,748, and $19,403, respectively, on land, buildings and leasehold improvements for the District Master Plan renovation.

Debt

The District had $123,455, $130,486, and $135,684 in outstanding debt at June 30, 2015, 2014 and 2013, respectively, comprised of revenue bonds, notes payable and capital lease obligations as detailed in Note 8 to the basic consolidated financial statements. The District entered into new capital lease obligations totaling $115 in 2015, $1,494 in 2014 and $407 in 2013. The District's formal debt issuances are subject to limitations imposed by state law. In September 2015, Moody's reduced the District's Ba2 to Ba3 with an outlook of negative.

Economic Factors on the Fiscal Year 2015 Budget and Beyond

The next two to five years will see additional significant capital expenditures on the seismic retrofits and building of new facilities, necessary purchase and upgrading of the District's Information Systems to meet Meaningful Use requirements, and continued need to replace outdated equipment.

The challenge of meeting these capital needs becomes more difficult as reimbursement for services continues to decline. On the federal level, the provisions of the Affordable Care Act have already begun and cuts from the sequestration were experienced beginning in fiscal year 2013. Penalties and loss of Medicare reimbursement for re-admissions and value based purchasing will continue to increase each year. Other penalties and loss of reimbursement for poor quality measures and patient experience are on the horizon.

On the State level, the California legislature continues to change reimbursement laws and regulations to create continued uncertainty over future healthcare reimbursement. Medi-Cal reimbursement has been reduced significantly with across-the-board rate cuts and the State is moving to several new methods of reimbursement which will further reduce reimbursement on a go-forward basis. As expected, the Affordable Care Act has dramatically increased coverage for the Medi-Cal population. It comes with significant cost due to the onslaught of newly insured patients coming through the emergency room.

Give the rapid rise in the number of insured patients, as a result of the Affordable Care Act many State and Federal programs have threatened to reduce supplemental payments that were derived based on the number of uncompensated patient days. The State and CMS are working on adjustments to that program however there is no assurance that funding will remain at previous levels.

A long standing challenge for the District is a weak local economy and challenging payor mix. Unfunded legislation mandated by the state of California relative to staffing ratios, and increased clinical quality and safety standards that are tied to government reimbursement contributes to higher staffing costs, increased uncompensated care expense, and lower reimbursement.

Statutory regulations applied to workers' compensation insurance benefits in the state of California over the past few years continue to adversely affect the District's workers' compensation costs despite the District's continued focus on overall employee health and safety. Growing medical costs has resulted in increased employee medical insurance expense, although the District has tried to mitigate some of the costs by moving to a self-insured plan.

Contacting the District's Financial Management

This financial report is designed to provide the District's patients, suppliers, community members and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the District's administration by telephoning 661.949.5533.

ANTELOPE VALLEY HEALTHCARE DISTRICT
CONSOLIDATED STATEMENTS OF NET POSITION

	June 30, 2015	June 30, 2014
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents	$ 12,418,769	$ 16,024,362
Short-term investments	45,930,235	34,248,517
Restricted cash and investments, current	2,243,184	2,329,554
Patient accounts receivable, net of estimated uncollectible accounts of $28,334,916 in 2015 and $39,933,623 in 2014	51,006,186	51,858,314
Other receivables, net of estimated uncollectible accounts of $810,704 in 2015 and $805,740 in 2014	2,623,182	4,230,051
Supplies inventory	5,837,487	5,494,891
Prepaid expenses and other current assets	2,300,608	2,515,717
Estimated third-party payor settlements	3,443,401	4,345,044
Total current assets	125,803,052	121,046,450
NONCURRENT CASH AND INVESTMENTS		
Held by trustee	13,734,648	14,074,620
Less amounts required to meet current obligations	2,206,127	2,292,554
	11,528,521	11,782,066
Other long-term investments	56,500,160	58,523,931
Total noncurrent cash and investments	68,028,681	70,305,997
CAPITAL ASSETS, net	174,403,464	178,428,043
OTHER ASSETS	1,425,151	1,195,280
Total noncurrent assets	243,857,296	249,929,320
Total assets	369,660,348	370,975,770
DEFERRED OUTFLOWS OF RESOURCES (note 10)	4,024,740	-
Total assets and deferred outflows of resources	$ 373,685,088	$ 370,975,770

See accompanying notes of independent auditors.

	June 30, 2015	June 30, 2014
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 15,283,773	$ 19,626,498
Accrued payroll and related expenses	19,387,330	17,631,737
Current maturities of long-term debt	7,076,527	7,104,310
Accrued self-insurance liabilities, current portion	7,458,211	7,765,598
Accrued interest payable	2,206,127	2,292,554
Total current liabilities	51,411,968	54,420,697
LONG-TERM DEBT, net of current portion	116,378,863	123,381,530
ACCRUED SELF-INSURANCE LIABILITIES, net of current portion	14,217,000	14,690,141
PENSION AND OPEB LIABILITIES	120,352,845	62,440,427
Total liabilities	302,360,676	254,932,795
NET POSITION		
Net investment in capital assets	64,682,722	62,016,823
Restricted, expendable for:		
Workers' compensation collateral	37,057	37,000
Specific operating activities	681,360	652,274
Restricted, non-expendable for minority interests	459,004	534,814
Unrestricted	5,464,269	52,802,064
Total net position	71,324,412	116,042,975
Total liabilities and net position	$ 373,685,088	$ 370,975,770

ANTELOPE VALLEY HEALTHCARE DISTRICT
CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years Ended June 30,	
	2015	2014
OPERATING REVENUES		
Net patient service revenue, net of provision for uncollectible accounts of $24,611,894 in 2015 and $29,471,370 in 2014	$ 394,251,797	$ 349,333,378
Other revenue	7,373,893	10,616,104
Total operating revenues	401,625,690	359,949,482
OPERATING EXPENSES		
Salaries and wages	168,159,483	160,646,887
Employee benefits	56,317,649	54,234,474
Fees to individuals and organizations	27,378,332	27,220,398
Purchased services	24,301,705	22,021,303
Supplies and other expenses	102,927,742	82,835,730
Depreciation and amortization	14,503,489	12,521,233
Total operating expenses	393,588,400	359,480,025
OPERATING INCOME	8,037,290	469,457
NONOPERATING REVENUES (EXPENSES)		
Grant revenue and contributions	3,689,744	3,978,963
Investment income	986,035	1,242,483
Interest expense	(5,798,209)	(5,351,567)
Total nonoperating expenses, net	(1,122,430)	(130,121)
Change in net position	6,914,860	339,336
NET POSITION, Beginning of year, as previously reported	116,042,975	115,703,639
Cumulative effect of change in accounting principle (note 10)	(51,633,423)	-
NET POSITION, Beginning of year, as restated	64,409,552	115,703,639
NET POSITION, End of year	$ 71,324,412	$ 116,042,975

ANTELOPE VALLEY HEALTHCARE DISTRICT
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on behalf of patients	$ 395,971,124	$ 348,977,802
Payments to suppliers and contractors	(154,809,399)	(132,256,578)
Payments to employees	(220,157,671)	(210,634,743)
Other receipts and payments, net	8,980,762	10,153,434
Net cash provided by operating activities	29,984,816	16,239,915
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Receipts from grants and contributions	3,724,188	3,864,178
Net cash provided by noncapital financing activities	3,724,188	3,864,178
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(14,591,456)	(14,956,799)
Principal repayments on long-term debt	(7,145,552)	(6,692,560)
Interest payments on long-term debt	(7,245,592)	(7,055,784)
Net cash used in capital and related financing activities	(28,982,600)	(28,705,143)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(43,928,420)	(48,167,349)
Proceeds from sale of investments	34,610,388	61,029,630
Interest and dividends received on investments	986,035	1,242,483
Net cash provided by (used in) investing activities	(8,331,997)	14,104,764
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,605,593)	5,503,714
CASH AND CASH EQUIVALENTS, Beginning of year	16,024,362	10,520,648
CASH AND CASH EQUIVALENTS, End of year	$ 12,418,769	$ 16,024,362

ANTELOPE VALLEY HEALTHCARE DISTRICT
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	Years Ended June 30, 2015	2014
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 8,037,290	$ 469,457
Adjustments to reconcile operating income to net cash provided by operating activities:		
Provision for bad debts	24,611,894	29,471,370
Depreciation and amortization	14,503,489	12,521,233
Loss on disposal of assets	114,821	35,924
Changes in assets and liabilities:		
Patient accounts receivable, net	(23,794,210)	(32,397,787)
Other receivables, net	1,606,869	(599,070)
Supplies inventory and prepaid expenses and other current assets	(127,487)	(195,378)
Estimated third-party payor settlements	901,643	2,570,841
Other assets	(229,871)	37,244
Deferred outflows of resources	(4,024,740)	-
Accounts payable and accrued liabilities	1,131,058	(1,172,536)
Accrued payroll and related expenses	1,755,593	(3,284,649)
Accrued self-insurance liabilities	(780,528)	1,251,999
Pension and OPEB liabilities	6,278,995	7,531,267
Net cash provided by operating activities	$ 29,984,816	$ 16,239,915
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Capital expenditures included in accounts payable	$ 160,779	$ 5,634,562
Capital assets acquired through capital leases	$ 115,102	$ 1,494,233

Note 1 – Nature of Operations and Reporting Entity

Antelope Valley Healthcare District (the "District") is a health care district and political subdivision of the state of California, organized and existing under the provisions of the Local Health Care District Law of the state of California. The District is located in Lancaster, California, and is governed by a five-member Board of Directors elected by voters within the District.

The District primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Antelope Valley, High Desert and eastern Sierra areas. It also operates a home health agency in the same geographic areas.

These financial statements present the District and the following blended component units:

- The Antelope Valley Outpatient Imaging Center, LLC (AVOIC) is a legally separate entity that operates two diagnostic imaging centers located in Lancaster, California and Palmdale, California with a December 31 year end. The District owns 70% of AVOIC and can unilaterally make operating decisions such as establishing a budget or issuing debt. The District has determined that AVOIC meets the criteria of a blended component unit under GASB Statement No. 61 as the governing bodies are substantially the same and because the operations are managed by the District similar to other hospital departments.

- The Gift Foundation of the Antelope Valley Health Care District d/b/a Antelope Valley Hospital Foundation (AVHF) is a 501(c)(3) tax exempt organization and is legally separate from the District and operates with a June 30 fiscal year end. Although the District does not appoint a voting majority of the AVHF's Board of Directors nor is the District financially accountable for the organization, the District has determined that AVHF meets the criteria of a blended component unit in accordance with GASB Statement No. 61 as the economic resources earned and held by AVHF have historically been used for the direct benefit of the District.

- The Desert Hills Sleep Disorder Center, LLC (DHSDC) is a legally separate entity operating a sleep diagnostic facility in Lancaster, California. The District owns 60% of the DHSDC and can unilaterally make operating decisions such as establishing a budget or issuing debt. The District has determined that DHSDC meets the criteria of a blended component unit under GASB Statement No. 61 as the governing bodies are substantially the same and because the operations are managed by the District similar to other hospital departments. DHSDC ceased operations during the fiscal year ended June 30, 2014 and all operating equipment was sold or disposed.

The other members' interest in AVOIC and DHSDC is accounted for as a minority interest in the District's financial statements. All significant intercompany accounts and transactions have been eliminated.

Note 1 – Nature of Operations and Reporting Entity (continued)

Condensed component unit information for each of the District's blended component units for the year ended June 30, 2015 is as follows:

Condensed Statements of Net Position
As of June 30, 2015

	AVOIC	AVHF	DHSDC
ASSETS			
Patient accounts receivable, net	$ 2,284,211	$ -	$ -
Other current assets	444,726	4,343,683	15,127
Capital assets, net	903,924	-	-
Total assets	$ 3,632,861	$ 4,343,683	$ 15,127
LIABILITIES			
Due to the District	$ 62,187	$ 64,819	$ 81,607
Other current liabilities	1,875,236	-	-
Long-term liabilities	76,791	-	-
Total liabilities	2,014,214	64,819	81,607
NET POSITION			
Net investment in capital assets	343,690	-	-
Restricted, expendable	-	522,570	-
Restricted, nonexpendable	1,000,000	-	280,000
Unrestricted	274,957	3,756,294	(346,480)
Total net position	1,618,647	4,278,864	(66,480)
Total liabilities and net position	$ 3,632,861	$ 4,343,683	$ 15,127

Note 1 – Nature of Operations and Reporting Entity (continued)

Condensed Statements of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2015

	AVOIC	AVHF	DHSDC
OPERATING REVENUE			
Net patient service revenue	$ 14,222,902	$ -	$ -
Other	21,151	-	-
Total operating revenues	14,244,053	-	-
OPERATING EXPENSES			
Salaries, wages and employee benefits	4,307,691	106,075	-
Purchased services and professional fees	6,223,598	-	2,200
Other operating expenses	3,252,172	185,721	1,755
Depreciation and amortization	658,982	-	-
Total operating expenses	14,442,443	291,796	3,955
OPERATING LOSS	(198,390)	(291,796)	(3,955)
NONOPERATING REVENUES (EXPENSES)			
Grant revenue and contributions	-	408,869	-
Investment income	49	77,665	-
Interest expense	(49,086)	-	-
Total nonoperating revenues (expenses), net	(49,037)	486,534	-
Change in net position	(247,427)	194,738	(3,955)
Beginning net position	1,866,074	4,084,126	(62,525)
Ending net position	$ 1,618,647	$ 4,278,864	$ (66,480)

Note 1 – Nature of Operations and Reporting Entity (continued)

Condensed Statements of Cash Flows
For the Year Ended June 30, 2015

	AVOIC	AVHF	DHSDC
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from and on behalf of patients	$ 14,318,950	$ -	$ -
Payments to suppliers and contractors	(9,549,454)	(312,894)	(3,955)
Payments to employees	(4,356,983)	(106,074)	-
Other receipts and payments, net	21,151	508,615	-
Net cash provided by (used in) operating activities	433,664	89,647	(3,955)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(20,880)	-	-
Principal repayments on long-term debt	(556,486)	-	-
Interest payments on long-term debt	(49,086)	-	-
Net cash used in capital and related financing activities	(626,452)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received on investments	49	-	-
Net cash provided by investing activities	49	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(192,739)	89,647	(3,955)
CASH AND CASH EQUIVALENTS, Beginning of year	518,031	3,251,616	19,081
CASH AND CASH EQUIVALENTS, End of year	$ 325,292	$ 3,341,263	$ 15,126

Note 1 – Nature of Operations and Reporting Entity (continued)

Condensed component unit information for each of the District's blended component units for the year ended June 30, 2014 is as follows:

Condensed Statements of Net Position
As of June 30, 2014

	AVOIC	AVHF	DHSDC
ASSETS			
Patient accounts receivable, net	$ 2,380,259	$ -	$ -
Other current assets	632,312	4,276,118	19,081
Capital assets, net	1,426,923	-	-
Total assets	$ 4,439,494	$ 4,276,118	$ 19,081
LIABILITIES			
Due to the District	$ 118,692	$ 191,992	$ 81,606
Other current liabilities	1,923,525	-	-
Long-term liabilities	531,203	-	-
Total liabilities	2,573,420	191,992	81,606
NET POSITION			
Net investment in capital assets	425,306	-	-
Restricted, expendable	-	529,970	-
Restricted, nonexpendable	1,000,000	-	280,000
Unrestricted	440,768	3,554,156	(342,525)
Total net position	1,866,074	4,084,126	(62,525)
Total liabilities and net position	$ 4,439,494	$ 4,276,118	$ 19,081

Note 1 – Nature of Operations and Reporting Entity (continued)

Condensed Statements of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2014

	AVOIC	AVHF	DHSDC
OPERATING REVENUE			
Net patient service revenue	$ 14,002,292	$ -	$ -
Other	18,580	-	-
Total operating revenues	14,020,872	-	-
OPERATING EXPENSES			
Salaries, wages and employee benefits	4,150,357	142,667	7,257
Purchased services and professional fees	6,245,525	-	2,453
Other operating expenses	2,810,385	182,765	18,462
Depreciation and amortization	794,539	-	10,542
Total operating expenses	14,000,806	325,432	38,714
OPERATING INCOME (LOSS)	20,066	(325,432)	(38,714)
NONOPERATING REVENUES (EXPENSES)			
Grant revenue and contributions	-	617,069	-
Investment income	4	112,015	-
Interest expense	(56,891)	-	-
Total nonoperating revenues (expenses), net	(56,887)	729,084	-
Change in net position	(36,821)	403,652	(38,714)
Beginning net position	1,902,895	3,680,474	(23,811)
Ending net position	$ 1,866,074	$ 4,084,126	$ (62,525)

Note 1 – Nature of Operations and Reporting Entity (continued)

Condensed Statements of Cash Flows
For the Year Ended June 30, 2014

	AVOIC	AVHF	DHSDC
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from and on behalf of patients	$ 14,237,283	$ -	$ 7,743
Payments to suppliers and contractors	(9,319,670)	(61,489)	(19,343)
Payments to employees	(4,018,929)	(142,667)	(2,892)
Other receipts and payments, net	6,585	729,084	8,000
Net cash provided by (used in) operating activities	905,269	524,928	(6,492)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(5,799)	-	-
Principal repayments on long-term debt	(566,014)	-	-
Interest payments on long-term debt	(56,891)	-	-
Net cash used in capital and related financing activities	(628,704)	-	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received on investments	4	-	-
Net cash provided by investing activities	4	-	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	276,569	524,928	(6,492)
CASH AND CASH EQUIVALENTS, Beginning of year	241,462	2,726,688	25,633
CASH AND CASH EQUIVALENTS, End of year	$ 518,031	$ 3,251,616	$ 19,141

Note 2 – Summary of Significant Accounting Policies

Basis of accounting and presentation – The accompanying financial statements have been prepared using the economic resource measurement focus and the accrual basis of accounting, in accordance with U.S. generally accepted accounting principles for healthcare organizations and the State Controller's Minimum Audit Requirements and Reporting Guidelines, and are presented in accordance with the reporting model as prescribed in Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The District follows the business-type activities' requirements of GASB Statement No. 34 and No. 63. This approach requires the following components of the District's financial statements:

GASB Statement No. 34 and subsequent amendments including GASB Statement No. 63 as discussed below, established standards for external financial reporting and requires that resources be classified for accounting and reporting purposes into the following net position categories:

Net investment in capital assets – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted net position – Expendable – Assets whose use by the District are subject to externally imposed constraints that can be fulfilled by actions of the District pursuant to those constraints or that expire by the passage of time. Restricted resources are used in accordance with the District's policies. When both restricted and unrestricted resources are available for use, the determination to use restricted or unrestricted resources is made on a case-by-case basis.

Restricted net position – Nonexpendable – Assets whose use by the District are not available as they represent the net position of minority interests of AVOIC and DHSDC.

Unrestricted net position – This amount represents the amount of net position that is not subject to externally imposed constraints. Unrestricted net position may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Reclassifications – Certain prior year amounts were reclassified to conform to the current year presentation.

Cash and cash equivalents – The District considers all liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents consisted primarily of money market accounts with brokers at June 30, 2015 and 2014.

Note 2 – Summary of Significant Accounting Policies (continued)

Investments and investment income – The District's investments are carried at fair value. Fair value is determined using quoted market prices. Investment income includes dividend and interest income, realized gains and losses on investments and the net change for the year in the fair value of investments carried at fair value. Amounts required to meet current debt service obligations are classified within short-term investments.

Patient accounts receivable – The District reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The District provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the District bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Supplies inventory – Supplies inventory are stated at the lower of cost, determined using the first-in, first-out method, or market.

Capital assets – Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. The capitalization threshold (the dollar value above which asset acquisitions are added to the capital asset accounts) is $5,000 for all asset classifications and for items with a useful life of more than two years.

Depreciation is computed using the straight-line method over the estimated useful life of each asset.

Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the District:

Land improvements	2-25 years
Buildings and leasehold improvements	5-50 years
Equipment	3-30 years

The District capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowings. The District expenses bond issuance costs in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Total interest capitalized and incurred during fiscal years ended June 30, 2015 and 2014 was as follows:

	2015	2014
Interest capitalized	$ 1,360,956	$ 1,618,260
Interest charged to expense	5,798,209	5,351,567
Total interest incurred	$ 7,159,165	$ 6,969,827

Note 2 – Summary of Significant Accounting Policies (continued)

Capital assets are reviewed for impairment when events or changes in circumstances suggest that the service utility of the capital asset may have significantly and unexpectedly declined. Capital assets are considered impaired if both the decline in service utility of the capital asset is large in magnitude and the event or change in circumstance is outside the normal life cycle of the capital asset. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage. The determination of the impairment loss is dependent upon the event or circumstance in which the impairment occurred. Impairment losses, if any, are recorded in the statements of revenues, expenses, and changes in net position. There were no impairment losses recorded in the years ended June 30, 2015 and 2014.

Compensated absences – District policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits and are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

Pensions – For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Antelope Valley Hospital Medical Center Retirement Plan (Plan) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Risk management – The District is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice and workers' compensation claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The District is self-insured for a portion of its exposure to risk of loss from workers' compensation, malpractice claims, and employee health, dental and accident benefits. Annual estimated provisions are accrued based on actuarially determined amounts or management's estimate and includes an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Note 2 – Summary of Significant Accounting Policies (continued)

Net patient service revenue – The District has agreements with third-party payers that provide for payments to the District at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and include estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

During the year ended June 30, 2015, the District increased its estimated amounts due from third-party payers and increased net patient service revenue by approximately $3.9 million due to changes in accounting estimates related to prior periods. During the year ended June 30, 2014, the District increased its estimated amounts due to third-party payers and increased net patient service revenue by approximately $1.3 million due to changes in accounting estimates related to prior periods.

Normal estimation differences between subsequent cash collections on patient accounts receivable and net patient accounts receivable estimated in the prior year are reported as adjustments to net patient service revenue in the current period. Differences in 2015 and 2014 were not significant.

Charity care – The District provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the District does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income taxes – The District is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the District is subject to federal income tax on any unrelated business taxable income.

Grant and contribution income – During 2015 and 2014, the District received approximately $2,850,000 and $3,186,000 respectively in grant revenues from the federal government. These funds were recognized as non-operating revenue when the funds were expended for the purpose specified by the grantee. The grant expenditures are recorded as operating expenses. In addition, during 2015 and 2014 the District received approximately $525,000 and $656,000, respectively, in other grant and contribution income. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes.

Operating revenues and expenses – The statements of revenues, expenses and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the District's principal activity. Non-exchange revenues, including grants, contributions and income (losses) from investments, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Note 2 – Summary of Significant Accounting Policies (continued)

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Adoption of accounting pronouncements in current year – As described in note 10, effective July 1, 2014, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* which requires the District to record defined benefit pension obligations. Restatement of the amounts of pension expense and deferred outflows of resources for the prior period is not practical due to the unavailability of information; therefore the provisions of GASB Statements No. 68 and 71 were not applied to the prior period. The cumulative effect of applying the provisions of GASB Statements No. 68 and 71 have been reported as a restatement of beginning net position for the year ended June 30, 2015 in accordance with the statements. The cumulative effect of the adjustment to net position totaled $51,633,423.

Note 3 – Net Patient Service Revenue

The District has agreements with third-party payers that provide for payments to the District at amounts different from its established rates. These payment arrangements include:

Medicare – Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, acuity and other factors. The District is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor. The Medicare administrative contractor has audited the District's cost reports through June 30, 2012.

Medi-Cal – Inpatient acute services rendered to Medi-Cal program beneficiaries are paid at a prospectively determined rate per discharge (APR-DRG). These rates vary according to a patient classification system based on clinical, diagnostic and other factors. Outpatient services are reimbursed based upon a fee schedule per procedure, test or service.

Approximately 62% and 71% of net patient service revenue is from participation in the Medicare and state-sponsored Medi-Cal programs for the years ended June 30, 2015 and 2014, respectively. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

Note 3 – Net Patient Service Revenue (continued)

The District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 4 – Deposits, Investments and Investment Income

Cash and investments as of June 30 consist of the following:

	2015	2014
Cash on hand	$ 8,805	$ 8,805
Deposits	22,262,465	21,975,105
Investments	106,349,599	100,924,520
Total cash and investments	$ 128,620,869	$ 122,908,430

The carrying values of deposits and investments shown above are included in the statements of net position as follows:

	2015	2014
Cash and cash equivalents	$ 12,418,769	$ 16,024,362
Short-term investments	45,930,235	34,248,517
Restricted cash and investments, current	2,243,184	2,329,554
Noncurrent cash and investments	68,028,681	70,305,997
Total cash and investments	$ 128,620,869	$ 122,908,430

Deposits – Custodial credit risk is the risk that, in the event of a bank failure, an entity's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law which requires collateralization of all deposits with federal depository insurance and other acceptable collateral in specific amounts.

At June 30, 2015 and 2014 approximately $9,256,000 and $13,055,000 of the District's bank balances respectively, were insured for the first $250,000 or covered by collateral held in the pledging bank's trust department in the name of the District. These amounts exclude deposits held by the District's blended component units with carrying values of approximately $3,682,000 and $3,789,000 at June 30, 2015 and 2014, respectively. As nongovernmental entities, the blended component units are not subject to the collateralization requirements. The blended component units' cash accounts are uncollateralized and exceeded federally insured limits by approximately $2,316,000 and $2,581,000 at June 30, 2015 and 2014, respectively.

Note 4 – Deposits, Investments and Investment Income (continued)

Investments – Under provisions of the California Government Code, the District's investments are limited to certain types of investments. In general, the District may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury, U.S. agencies and instrumentalities, California agencies, negotiable certificates of deposit and in bank repurchase agreements. It may also invest to a limited extent in commercial paper, corporate and depository institution debt securities and mortgage-backed securities.

Investment in state investment pool – The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The District had the following investments and maturities at June 30, 2015:

		Investment Maturities (In Years)		
Investment Type	Fair Value	Less Than 1	1-5	More Than 5
External investment pool - LAIF	$ 38,114,006	$ 38,114,006	$ -	$ -
U.S. instrumentalities	27,215,170	4,500,828	22,714,342	-
Corporate bonds	18,787,819	2,888,566	15,899,253	-
U.S. Treasury	18,088,792	-	18,088,792	-
Held by trustee:				
Corporate bonds	3,231,258	587,762	2,643,496	-
Foreign bonds	485,719	-	485,719	-
		$ 46,091,162	$ 59,831,602	$ -
Accrued interest receivable	426,835			
	$ 106,349,599			

Note 4 – Deposits, Investments and Investment Income (continued)

The District had the following investments and maturities at June 30, 2014:

Investment Type	Fair Value	Investment Maturities (In Years) Less Than 1	1-5	More Than 5
External investment pool - LAIF	$ 21,071,810	$ 21,071,810	$ -	$ -
U.S. instrumentalities	25,334,140	3,504,281	21,829,859	-
Corporate bonds	20,936,018	1,009,830	19,926,188	-
U.S. Treasury	21,954,877	5,004,102	16,950,775	-
Commercial paper	3,246,794	3,246,794	-	-
Held by trustee:				
U.S. instrumentalities	2,586,719	-	2,586,719	-
Corporate bonds	4,137,410	844,207	3,293,203	-
Municipal bonds	748,785	748,785	-	
Foreign bonds	496,267	-	496,267	-
		$ 35,429,809	$ 65,083,011	$ -
Accrued interest receivable	411,700			
	$ 100,924,520			

Interest rate risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy generally limits its investment portfolio to maturities of less than ten years unless approved by the Board of Directors. The external investment pool is presented as an investment with a maturity of less than one year because such investments are redeemable in full immediately.

Credit risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy generally limits its investments to a credit rating of A or the equivalent by a nationally recognized statistical rating organization. The District's investments not directly guaranteed by the U.S. government were rated as follows at June 30, 2015 and 2014:

Investment Type	Moody's	S&P
External investment pool - LAIF	Not Rated	Not Rated
U.S. instrumentalities	Aaa	AA+
Corporate bonds	Aaa to A2	AAA to A+
U.S. Treasury	Aaa	AA+
Commercial paper	P-1	A-1

Custodial credit risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the District's investments as disclosed in the table above at June 30, 2015 and 2014 are held by custodians in other than the District's name. The District's investment policy for custodial credit risk requires compliance with the provisions of state law.

Note 4 – Deposits, Investments and Investment Income (continued)

Concentration of credit risk – The District places no limit on the amount that may be invested in any one issuer. The following investments exceeded 5% of the total fair value of all investments at June 30:

	2015		2014	
Investment Type	Fair Value	Percentage of Total Investments	Fair Value	Percentage of Total Investments
U.S. Treasury Securities	$ 18,088,792	18%	$ 21,954,877	24%
Federal Home Loan Mortgage Corporation	10,400,143	10%	16,511,264	18%
Federal Farm Credit Banks	8,393,726	8%	1,985,834	2%
Federal Home Loan Bank	4,918,793	5%	2,573,403	3%
Federal National Mortgage Association	3,502,508	3%	4,263,639	5%

Investment income – Investment income for the years ended June 30 consisted of:

	2015	2014
Interest, dividends and realized gains on sales of investments	$ 894,971	$ 951,975
Net increase (decrease) in fair value of investments	91,064	290,508
	$ 986,035	$ 1,242,483

Note 5 – Patient Accounts Receivable

The District grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Gross patient accounts receivable at June 30 consisted of:

	2015	2014
Medicare	27 %	27 %
Medi-Cal	36	44
Other third-party and commercial payor	28	22
Self pay	9	7
Total	100 %	100 %

Note 6 – Capital Assets

Capital assets activity for the years ended June 30 was as follows:

	Beginning Balance June 30, 2014	Additions	Deletions	Transfers	Ending Balance June 30, 2015
Land	$ 9,869,241	$ -	$ -	$ -	$ 9,869,241
Land improvements	23,684,305	34,317	-	-	23,718,622
Buildings and leasehold improvements	138,564,440	32,210	-	35,687,358	174,284,008
Equipment	179,570,928	4,730,833	(588,631)	4,582,405	188,295,535
Construction in progress	41,511,874	5,796,371	(477,467)	(40,269,763)	6,561,015
	393,200,788	10,593,731	(1,066,098)	-	402,728,421
Less accumulated depreciation:					
Land improvements	9,316,421	1,015,935	-	-	10,332,356
Buildings and leasehold improvements	64,586,104	3,785,199	-	-	68,371,303
Equipment	140,870,220	9,297,332	(546,254)	-	149,621,298
	214,772,745	14,098,466	(546,254)	-	228,324,957
	$ 178,428,043	$ (3,504,735)	$ (519,844)	$ -	$ 174,403,464

	Beginning Balance June 30, 2013	Additions	Deletions	Transfers	Ending Balance June 30, 2014
Land	$ 9,869,241	$ -	$ -	$ -	$ 9,869,241
Land improvements	12,987,558	38,622	(113,279)	10,771,404	23,684,305
Buildings and leasehold improvements	131,893,799	18,819	-	6,651,822	138,564,440
Equipment	168,744,255	1,963,307	(407,259)	9,270,625	179,570,928
Construction in Progress	48,514,557	19,691,168	-	(26,693,851)	41,511,874
	372,009,410	21,711,916	(520,538)	-	393,200,788
Less accumulated depreciation:					
Land improvements	8,666,628	763,072	(113,279)	-	9,316,421
Buildings and leasehold improvements	60,949,775	3,636,329	-	-	64,586,104
Equipment	133,119,723	8,121,832	(371,335)	-	140,870,220
	202,736,126	12,521,233	(484,614)	-	214,772,745
	$ 169,273,284	$ 9,190,683	$ (35,924)	$ -	$ 178,428,043

Construction commitments for various construction projects were not significant as of June 30, 2015 and totaled approximately $3,829,000 as of June 30, 2014.

Note 7 – Self-Insurance Liabilities

Workers' compensation claims – The District is self-insured for the first $1,000,000 per occurrence of workers' compensation risks. The District purchases commercial insurance coverage above the self-insurance limits. Losses from asserted and unasserted claims identified under the District's incident reporting system are actuarially determined based on the District's past experience as well as other considerations, including the nature of each claim or incident and relevant trend factors. These unpaid claim liabilities were discounted at 4.0% in 2015 and in 2014 to account for the time value of money to determine the current estimated liabilities as reflected below. It is reasonably possible that the District's estimate of losses will change by a material amount in the near term. Activity in the District's accrued workers' compensation claims liability during 2015 and 2014 is summarized as follows:

	2015	2014
Balance, beginning of the year	$ 13,476,141	$ 13,149,142
Current year claims incurred and changes in estimates for claims incurred in the prior year	2,607,490	3,160,909
Claims and expenses paid	(3,529,631)	(2,833,910)
Balance, end of year	$ 12,554,000	$ 13,476,141

Medical malpractice claims – The District is self-insured for medical malpractice claims for the first $750,000 per incident with a $4,000,000 annual aggregate. The District also maintains excess liability coverage for claims in excess of $20,000,000. Insurance coverage is on a claims-made basis.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Annual estimated provisions are accrued based on the District's past experience as well as other considerations, including the nature of the claim or incident and relevant trend factors. Losses from asserted and unasserted claims identified under the District's incident reporting system are actuarially determined based on the District's past experience as well as other considerations, including the nature of each claim or incident and relevant trend factors. These unpaid claim liabilities were discounted at 4.0% in 2015 and in 2014 to account for the time value of money to determine the current estimated liabilities as reflected below. It is reasonably possible that this estimate could change materially in the near term.

Activity in the District's accrued medical malpractice claims liability during 2015 and 2014 is summarized as follows:

	2015	2014
Balance, beginning of the year	$ 7,812,000	$ 6,887,000
Current year claims incurred and changes in estimates for claims incurred in the prior years	1,145,327	1,604,654
Claims and expenses paid	(1,313,327)	(679,654)
Balance, end of year	$ 7,644,000	$ 7,812,000

Note 7 – Self-Insurance Liabilities (continued)

Accrued medical claims – The District provides certain health and dental benefits to enrollees that serve under contract to the hospital. The cost of medical services provided to these enrollees is accrued in the period that the services are rendered. A provision has been made for claims in process of review and for claims incurred but not reported at year-end. The amount of this liability is computed using historical claims payment experience, and a review of experience for similar plans. Amounts accrued totaled approximately $1,477,000 and $1,168,000 at June 30, 2015 and 2014, respectively.

Estimates are adjusted based upon changes in experience and such adjustments are reflected in current operations. Although considerable variability is inherent in such estimates, there is at least a possibility that recorded estimates will change by a material amount in the near term.

Note 8 – Long-Term Obligations

The following is a summary of long-term obligation transactions for the District for the years ended June 30:

2015	Beginning Balance	Additions	Payments	Ending Balance	Due Within 1 Year
Series 2002A District Revenue Bonds (A)	$ 55,000,000	$ -	$ -	$ 55,000,000	$ -
Series 1997A District Insured Refunding Revenue Bonds (B)	19,095,000	-	(2,300,000)	16,795,000	2,420,000
Series 1997B District Insured Revenue Bonds (C)	12,660,000	-	(705,000)	11,955,000	745,000
Series 2010A Fixed Rate Revenue Bonds (D)	21,874,150	-	(2,074,024)	19,800,126	2,273,527
Series 2011A Fixed Rate Revenue Bonds (E)	17,825,000	-	(300,000)	17,525,000	300,000
Notes payable	94,028	-	(94,028)	-	-
Capital lease obligations	3,937,662	115,102	(1,672,500)	2,380,264	1,338,000
Total long-term debt	$ 130,485,840	$ 115,102	$ (7,145,552)	$ 123,455,390	$ 7,076,527

2014	Beginning Balance	Additions	Payments	Ending Balance	Due Within 1 Year
Series 2002A District Revenue Bonds (A)	$ 55,000,000	$ -	$ -	$ 55,000,000	$ -
Series 1997A District Insured Refunding Revenue Bonds (B)	21,280,000	-	(2,185,000)	19,095,000	2,300,000
Series 1997B District Insured Revenue Bonds (C)	13,330,000	-	(670,000)	12,660,000	705,000
Series 2010A Fixed Rate Revenue Bonds (D)	23,084,624	-	(1,210,474)	21,874,150	2,074,024
Series 2011A Fixed Rate Revenue Bonds (E)	18,125,000	-	(300,000)	17,825,000	300,000
Notes payable	624,748	-	(530,720)	94,028	94,028
Capital lease obligations	4,239,795	1,494,233	(1,796,366)	3,937,662	1,631,258
Total long-term debt	$ 135,684,167	$ 1,494,233	$ (6,692,560)	$ 130,485,840	$ 7,104,310

Note 8 – Long-Term Obligations (continued)

Revenue bonds payable

A. Due September 1, 2017; principal payable at maturity plus interest at a rate of 5.25%; secured by a pledge of the District's gross revenues and trustee-held assets. The agreement is subject to certain financial covenants, including net income to annual debt service ratio.
B. Due January 1, 2020; principal payable annually beginning January 1, 2013 plus semiannual interest payments at interest rates from 5.00% to 5.20%; secured by pledge of the District's gross revenues and trustee-held assets. The agreement is subject to certain financial covenants, including minimum liquidity, net income to annual debt service ratio, indebtedness ratio and a minimum medical malpractice insurance coverage.
C. Due January 1, 2027; principal payable annually plus semiannual interest payments at a fixed rate of 5.20%; secured by pledge of the District's gross revenues and trustee-held assets. The agreement is subject to certain financial covenants, including minimum liquidity, net income to annual debt service ratio, indebtedness ratio and a minimum medical malpractice insurance coverage.
D. Due December 1, 2020; private placement bond issuances of $25,000,000. Principal and interest payable monthly at fixed interest rates 4.82%; secured by pledge of the District's gross revenue and trustee-held assets. The agreement is subject to certain financial covenants, including minimum liquidity, net income to annual debt service ratio, indebtedness ratio and a minimum medical malpractice insurance coverage. A portion of the proceeds in the amount of $10,000,000 was used to pay the Series 1997A District Insured Refunding Revenue Bonds.
E. Due March 1, 2036; the agreement was executed via three separate bond issuances of $10,000,000, $3,620,000, and $5,105,000. Principal payable annually plus semiannual interest payment at fixed interest rates from 6.875% to 7.25%, respectively; secured by pledge of the District's gross revenue and trustee-held assets. The agreement is subject to certain financial covenants, including minimum liquidity, net income to annual debt service ratio, indebtedness ratio and a minimum medical malpractice insurance coverage.

The indenture agreements for the Series 2002A Bonds, the Series 1997A and 1997B Bonds and the Series 2010A and Series 2011A Bonds require that certain funds be established with the trustees. Accordingly, these funds are included as assets held by the trustee for debt service and capital acquisitions in the statements of net position.

The indenture agreements for the Series 1997A and 1997B Bonds, the Series 2002A Bonds, and the Series 2010A and Series 2011A Bonds also place certain limits on the incurrence of additional borrowings and require that the District satisfy certain measures of financial performance as long as the bonds are outstanding. As of June 30, 2015, the District was not in compliance with the indebtedness ratio. As a result, the District is required by the bond holders to retain a management consultant to remedy non-compliance with this covenant. As long as these actions are taken, the covenant violation does not constitute an event of default under the terms of the indenture agreements.

Note 8 – Long-Term Obligations (continued)

The bond service requirements as of June 30, 2015, are as follows:

Years Ending June 30	Total to be Paid	Principal	Interest
2016	$ 12,183,947	$ 5,738,527	$ 6,445,420
2017	12,501,057	6,355,667	6,145,390
2018	68,485,895	63,677,753	4,808,142
2019	12,441,538	10,046,821	2,394,717
2020	12,465,036	10,595,162	1,869,874
2020 - 2024	18,348,453	12,341,196	6,007,257
2025 - 2029	9,502,482	6,390,000	3,112,482
2030 - 2034	6,265,213	4,760,000	1,505,213
2035 - 2038	1,254,825	1,170,000	84,825
Total	$ 153,448,446	$ 121,075,126	$ 32,373,320

Notes payable – The District has multiple notes payable agreements with varying principal due dates and interest rates. The notes are secured by equipment. The notes payable matured and were repaid during the year ended June 30, 2015.

Capital lease obligations – The District is obligated under leases for equipment that are accounted for as capital leases. The carrying value of assets under capital leases totaled approximately $16,721,000 and $16,606,000, at June 30, 2015 and 2014, respectively, net of accumulated depreciation of approximately $12,467,000 and $10,588,000 at June 30, 2015 and 2014, respectively.

The following is a schedule by year of future minimum lease payments under the capital leases, including interest at rates of 2.59% to 6.10% together with the present value of the future minimum lease payments as of June 30, 2015:

Years Ending June 30	
2016	$ 1,365,752
2017	430,488
2018	288,389
2019	329,550
Total minimum lease payments	2,414,179
Less amount representing interest	33,915
Present value of future minimum lease payments	$ 2,380,264

Note 9 – Restricted Net Position

At June 30, 2015 and 2014 restricted expendable net position was available for the following purposes:

	2015	2014
Workers' compensation collateral	$ 37,057	$ 37,000
Specific operating activities	122,304	652,274
Total restricted expendable net position	$ 159,361	$ 689,274

Note 10 – Pension Plans

403(b) defined contribution plan – The Antelope Valley Hospital Medical Center Section 403(b) Retirement Plan (403(b) Plan) is a tax-deferred annuity plan that permits employees to accumulate retirement savings by making deferrals of their salary and permits the District to make non-elective contributions on behalf of eligible employees. Contributions are invested at the direction of the participants. The 403(b) Plan is administered by a board of trustees appointed by the District's governing body. The 403 (b) Plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the 403 (b) Plan document and were established and can be amended by action of the District's governing body. Contribution rates for 403(b) Plan members, expressed as a percentage of covered payroll, were 10.0% and 5.3% for 2015 and 2014, respectively. There were no contributions made by the District during the fiscal years ended June 30, 2015 or 2014.

Defined benefit pension plan – The Antelope Valley Hospital Medical Center Retirement Plan (Plan) is a single-employer defined benefit pension plan established by the District and administered by the Plan's board of trustees who are appointed by the District's governing body. The authority to establish and amend benefit provisions is vested in the District's governing body. The Plan issues publicly available stand-alone financial statements and required supplementary information for the Plan. The report may be obtained by writing to the Plan at 1600 West Avenue J, Lancaster, California 93534, or by calling 661.949.5533.

Effective July 1, 2014, the Plan implemented the requirements of the California Public Employees' Pension Reform Act of 2013 (PEPRA). In accordance with the new provisions, certain members make contributions of 3.75% of their eligible compensation to the Plan each pay period.

As discussed in Note 2, the District implemented GASB Statement No. 68 effective July 1, 2014. GASB Statement No. 68, among other provisions, amended prior guidance with respect to the reporting of pensions. GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows/inflows of resources, and expense/expenditures. For defined benefit pensions, the District's net pension liability (asset) was not previously recorded on the statement of net position. GASB Statement No. 68 requires that accounting changes adopted to conform to the provisions of the Statement be applied retroactively by restating financial statements.

Note 10 – Pension Plans (continued)

Due to the District electing to use a measurement date of June 30, 2015 for its net pension liability, no accounting valuation report was prepared for the measurement date of June 30, 2013. Therefore, all of the information needed to restate the prior year data is not readily available and the 2014 data has not been restated.

Beginning Balance, as previously reported	$ 116,042,975
Prior Period Adjustment in FY2015:	
Net Pension Liability	(51,633,423)
Beginning Balance, as restated	$ 64,409,552

Benefits provided – The Plan is a noncontributory defined-benefit plan that covers substantially all employees and provides for retirement, death, and disability benefits to Plan members and their beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with ten years of total service are eligible to retire at age 55 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for the plan are applied as specified by the Public Employees' Retirement Law.

The Plans' provisions and benefits in effect at June 30, 2015, are summarized as follows:

Benefit formula	1.6% @ 65
Benefit vesting schedule	5 years service
Benefit payments	Monthly for life
Retirement age	55 - 65
Monthly benefits, as a % of eligible compensation	1.6% to 1.7%

Employees covered – The following employees were covered by the benefit terms for the Plan:

	Valuation Date July 1, 2014 (Fiscal 2015)
Active members	1,887
Terminated vested members not yet receiving benefits	1,167
Retirees and beneficiaries currently receiving benefits	604
Total participants	3,658

Note 10 – Pension Plans (continued)

Contributions – The authority to establish and amend obligations of Plan members and the District is set forth in the Plan document and is vested in the District's Board of Directors. Plan members are not required to contribute any of their annual covered salary. Prior to 2015, the District contributed such amounts, if any, as it determined to be appropriate each year. In fiscal year 2015, the Board adopted a pension funding policy whereby the District will contribute at minimum the actuarially determined contribution less required employee contributions. The annual required contributions for 2015 were determined as part of actuarial valuation on July 1, 2014 using the projected unit credit actuarial cost method. The actuarial assumptions included (a) an 8% investment rate of return in 2015 and (b) projected salary increases of up to 7.5% per year in 2015.

Net pension liability – The District's net pension liability is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability is measured as of June 30, 2015, using an actuarial valuation as of July 1, 2014 rolled forward to June 30, 2015 using the projected unit credit actuarial cost method. A summary of principal assumptions and methods used to determine the net pension liability is shown below.

Actuarial assumptions – The total pension liability was determined as part of an actuarial valuation as of July 1, 2014 rolled forward to June 30, 2015, using actuarial methods and assumptions in accordance with GASB Statement Nos. 67 and 68. The total pension liability was calculated using the entry age normal actuarial cost method and RP-2000 Morality Table for Males and Females projected to 2015 (2030 for PEPRA Participants). The actuarial assumptions included (a) a 7.50% investment long-term expected rate of return, net of investment expenses, and (b) projected salary increases of 3.50%. Items (a) and (b) included an inflation component of 2.75%.

Discount rate – The discount rate used to measure the total pension liability was 7.50% which decreased from a discount rate of 8.0% used in the valuation for the fiscal year ended June 30, 2014. This single discount rate was based on the expected rate of return on pension plan investments of 7.50%. Based on the stated assumptions and the projection of cash flows, the Plan's fiduciary net position and future contributions were projected to be available to finance all projected future benefit payments of current pension plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The projection of cash flows used to determine the Plan's discount rate assumes that contributions will continue at current levels for the current group of covered members with anticipated payroll increases of 3.5% annually.

The long-term expected rate of return on the Plan's investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Note 10 – Pension Plans (continued)

The long-term expected rates of return for each major investment class in the Plan's portfolio at June 30, 2015 are as follows:

Investment Class	Strategic Allocation	Long-Term Expected Rate of Return
Domestic equity		
U.S. large cap core	27.1%	9.3%
U.S. mid cap core	10.1%	10.3%
U.S. small cap core	5.1%	11.0%
International	10.9%	9.8%
Alternative		
Real estate- private REITS	4.4%	9.5%
Managed futures	2.0%	6.9%
Private equity	1.4%	14.3%
Fixed income		
Intermediate taxable bonds	33.2%	4.2%
Cash equivalents	5.8%	3.5%

Changes in the net pension liability – The changes in Net Pension Liability follow:

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a) - (b)**
Changes in Net Pension Liability			
Balances as of June 30, 2014, as previously reported	*	*	$ 59,898,883
Cumulative effect of change in accounting principle	*	*	51,633,423
Balances as of June 30, 2014, as restated	$ 244,717,116	$ 133,184,810	111,532,306
Changes for the year:			
Service cost	6,480,319	-	6,480,319
Interest on total pension liability	18,338,307	-	18,338,307
Benefit payments	(6,893,033)	(6,893,033)	-
Employer contributions	-	13,888,450	(13,888,450)
Member contributions	-	146,786	(146,786)
Net investment income	-	5,222,989	(5,222,989)
Administrative expenses	-	(74,122)	74,122
Balances as of June 30, 2015	$ 262,642,709	$ 145,475,880	$ 117,166,829

* Information necessary to restate the prior year data is not readily available

Note 10 – Pension Plans (continued)

Sensitivity of the net pension liability to changes in the discount rate – The following presents the net pension liability of the District, calculated using a discount rate of 7.50%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1% point lower (6.50%) or 1% point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Total pension liability	$ 301,137,686	$ 262,642,709	$ 230,771,815
Fiduciary net position	145,475,880	145,475,880	145,475,880
District's net pension liability	$ 155,661,806	$ 117,166,829	$ 85,295,935

Pension plan fiduciary net position – Detailed information about the Plan's fiduciary net position is available in the separately issued Antelope Valley Hospital Medical Center Retirement Plan financial reports.

Pension expenses and deferred outflows/inflows of resources related to pensions – The District recognized pension expense of $15,498,233 for the year ended June 30, 2015. The District reported deferred outflows of resources and deferred inflows of resources related to net differences between projected and actual earnings on plan investments of $4,024,740 at June 30, 2015.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Annual Recognition
2016	$ 1,006,185
2017	1,006,185
2018	1,006,185
2019	1,006,185
	$ 4,024,740

Note 11 – Other Benefit Plans

457(b) deferred compensation – Effective February 1, 2014, the District has a deferred compensation plan provided to certain executives of the District. The District records a deferred compensation liability for amounts due these individuals which include the earnings from the invested assets. The liability is funded as required by the plan, based on the anniversary date of each participant. Payments relating to these plans representing the District's funded contribution were not significant for the fiscal years ended June 30, 2015 or 2014.

Postretirement health plan – The District's postretirement health care plan is a single-employer plan administered by the District's governing body. The authority to establish and amend benefit provisions, subject to collective bargaining agreements, is vested in the District's governing body. Under certain collective bargaining agreements (California Nurses Association (C.N.A.) union contract), effective with retirements on or after July 1, 2006, the District provides health care coverage to eligible retirees. A retiree is eligible to receive these benefits if they earned at least 15 years of Benefited Service (as defined in the agreements) as a nurse with the District, including five years of continuous Benefited Service on the date of retirement, and they retired from active service with the District while eligible to receive a pension benefit from the District.

Retirees under age 65 are eligible to participate in the least expensive medical plan offered by the District to its nurses. This coverage ceases for retirees upon attainment of age 65. The District contributes a percentage of the premiums for the retiree based on years of Benefited Service, and the District's contribution level is frozen as of the date of retirement and does not increase with postretirement medical trend increases.

Funding policy – The plan is a pay-as-you-go plan and, therefore, is not funded. The District funds the plan on a cash basis as benefits are paid. No assets have been segregated or restricted to provide plan benefits.

Annual OPEB cost and net OPEB obligation – The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the years ended June 30, 2015 and 2014, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the plan:

Note 11 – Other Benefit Plans (continued)

	2015	2014
Normal cost	$ 456,906	$ 430,637
Amortization of UAAL	288,177	249,972
Annual required contribution	745,083	680,609
Interest on prior year net OPEB obligation	95,308	72,405
Adjustment to annual required contribution	(169,436)	(128,720)
Annual OPEB cost	670,955	624,294
Benefits paid	(26,483)	(13,549)
Increase in net OPEB obligation	644,472	610,745
Net OPEB obligation at beginning of year	2,541,544	1,930,799
Net OPEB obligation at end of year	$ 3,186,016	$ 2,541,544

The District provides health insurance benefits for C.N.A. retirees who are age 55 or older and earned at least 15 years of benefitted service on the date of retirement. Retirees under the age of 65 are entitled to receive health care benefits until age 65 under the Plan. In addition, the District contributes a percent of the medical premiums based upon the employee's years of Benefited Service at retirement.

As of July 1, 2014, the most recent actuarial valuation date, the plan was unfunded. The OPEB obligation as of June 30, 2015 and 2014 is approximately $3,186,000 and $2,542,000, respectively. The annual obligation cost for the years ended June 30, 2015 and 2014 is approximately $671,000 and $624,000, respectively. The ARC for the years ended June 30, 2015 and 2014 is approximately $745,000 and $681,000, respectively.

The ARC for 2015 and 2014 was determined as part of an actuarial valuation on July 1, 2014 and 2012, respectively. For measurement purposes, a 7.00% and 7.75% annual rate of increase in the per capita cost of covered health care was assumed for 2015 and 2014, respectively, with such annual rate of increase gradually declining to 5.75% in the 14th year and after. The expected long-term annual investment return discount rate used in estimating the accumulated postretirement benefit obligation was 3.75% at June 30, 2015 and 2014. The actuarial cost method used was Projected Unit Credit. The amortization method used was Level Dollar over a remaining amortization period of 15 years.

Trend information – The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the last three years were as follows:

Years Ending June 30	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2015	$ 670,955	3.9%	$ 3,186,016
2014	624,294	2.2%	2,541,544
2013	311,518	2.8%	1,930,799

Note 11 – Other Benefit Plans (continued)

Funded status and funding progress – The following is funded status information as of July 1, 2014, the most recent actuarial valuation date.

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a) / c
$ -	$ 2,410,488	$ 2,410,488	0.0%	$ 2,362,612	102.0%

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Note 12 – Contingencies

Litigation – In the normal course of business, the District is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the District's self-insurance program or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The District evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each potential claim. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Labor agreements – A substantial portion of the District's staff is covered by two collective bargaining agreements, one of which expired in June 2013 while the other expires in July 2015. Negotiations are currently in process on the expired collective bargaining agreements, though the ultimate outcome is not known at this time.

Operating leases – The District leases certain office space under operating lease agreements. Total lease expense, included in supplies and other expenses on the Consolidated Statement of Revenues, Expenses, and Changes in Net Positon, amounted to approximately $5,702,000 and $2,494,000 in the fiscal years ended June 30, 2015 and 2014, respectively. The District subleases certain office suites to other businesses.

Note 12 – Contingencies (continued)

Minimum future lease payments and sublease rental income offsets on existing non-cancelable leases as of June 30, 2015 are as follows:

	Minimum Future Lease Payments	Sublease Rental Income	Net
2016	$ 3,195,786	$ (1,260,479)	$ 1,935,307
2017	2,926,812	(1,260,479)	1,666,333
2018	2,799,411	(1,260,479)	1,538,932
2019	2,204,392	(1,260,479)	943,913
2020	1,275,893	(1,260,479)	15,414
Thereafter	16,609,604	(11,069,228)	5,540,376
Total minimum lease payments	$ 29,011,898	$ (17,371,623)	$ 11,640,275

The District has a direct financing lease arrangement for land in Lancaster, CA. The lease term is for fifty years, expiring on August 31, 2062. The lease calls for monthly payments in the amount of $3,646, adjusted for inflation every five years from the commencement date of the lease. The future minimum lease payments to be received are as follows:

2016	$ 43,750
2017	43,750
2018	43,750
2019	43,750
2020	43,750
Thereafter	1,797,390
Total minimum lease receipts	$ 2,016,140

Regulatory matters – The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, governmental health care program requirements and reimbursements for patient services. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the District is in compliance with fraud and abuse, as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory action unknown or unasserted at this time.

Note 12 – Contingencies (continued)

To ensure accurate payments to providers, the Tax Relief and Healthcare Act of 2006 mandated CMS to implement a Recovery Audit Contractor (RAC) program on a permanent and nationwide basis. The program uses RACs to search for potentially improper Medicare payments that may have been made to health care providers that were not detected through existing CMS program integrity efforts, which have occurred at least one year ago but not longer than three years ago. RAC assessments against the District began in the year ended June 30, 2011; as of June 30, 2015 approximately $127,000 was accrued and for the year ended June 30, 2015 approximately $1,079,000 was repaid. As of June 30, 2014, approximately $127,000 was accrued and for the year ended June 30, 2014 approximately $1,431,000 was repaid.

Note 13 – Construction and Seismic Standards

Under current California laws, the District's facilities must comply with specific provisions related to structural and nonstructural seismic standards. These laws generally required hospitals to retrofit, remodel or upgrade several buildings before 2013, subject to legislative changes and certain available exemptions. The District received an extension to comply by July 1, 2019. The District is currently working on improvements to noncompliant buildings in order to receive exemptions available under current legislation through 2030. The cost estimates associated with this compliance have not been completed but will likely be significant.

Note 14 – Revenue from Governmental Programs

Hospital Fee Program – The California Hospital Fee Program (the "Program") was signed into law on September 8, 2010 by the Governor of California. The Program required a "hospital fee" or "Quality Assurance Fee" ("QA Fee") to be paid by certain hospitals to a State fund established to accumulate the assessed QA Fees and receive matching federal funds. QA Fees and corresponding matching federal funds are then paid to participating hospitals in two supplemental payment methodologies: a fee-for-service methodology and a managed care plan methodology. The District, as a non-designated public hospital in California, was not subject to the QA Fee assessments according to the legislation but rather received net supplemental payments.

Additional legislation ("SB335") extended the Program for the period from July 1, 2011 through December 31, 2013. Again, the Program included only private hospitals but did allow for direct grants to non-designated public hospitals. Additional legislation ("SB239") extended the Program for the period from January 1, 2014 through December 31, 2016. The District recognized net patient service revenue of approximately $2,952,000 and $2,210,000 related to the Program during the years ended June 30, 2015 and 2014, respectively. Legislation in September 2012 ("SB290") increased the amount of direct grant funds available to non-designated hospitals and accordingly increased the District's allocation of direct grant income related to the year ended June 30, 2014.

Note 14 – Revenue from Governmental Programs (continued)

IGT Program – During 2014 and 2015, the District received supplemental payments through the Non-designated Public Intergovernmental Transfer Program (IGT Program) created by AB113 to allow non-designated public hospitals to access additional federal funds. Under this legislation, the District recognized approximately $14,993,000 and $10,229,000 in net patient service revenue for the years ended June 30, 2015 and 2014, respectively. Fees paid by the District into the IGT Program approximated $7,351,000 and $5,621,000 for the years ended June 30, 2015 and 2014, respectively, and are included in supplies and other expenses. The net impact of the IGT Program resulted in an increase in net position of $7,642,000 and $4,609,000 for the years ended June 30, 2015 and 2014, respectively.

Meaningful use incentives – The American Recovery and Reinvestment Act of 2009 ("ARRA") established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record ("EHR") technology. The Medicare incentive payments will be paid out to qualifying hospitals over four consecutive years on a transitional schedule. To qualify for Medicare incentives, hospitals and physicians must meet EHR meaningful use criteria that become more stringent over three stages designated by CMS.

Medicaid programs and payment schedules vary from state to state. The Medi-Cal programs requires hospitals to register for the program prior to 2016, to engage in efforts to adopt, implement or upgrade certified EHR technology in order to qualify for the initial year of participation, and to demonstrate meaningful use of certified EHR technology in order to qualify for payment for up to three additional years. Incentives for Medi-Cal and Medicare Meaningful Use Stage 1 Year 2 of $1,604,791 and $1,686,757, respectively, were received during the year ended June 30, 2015. Incentives for Medi-Cal and Medicare Meaningful Use Stage 1 Year 1 of $2,674,651 and $3,440,406, respectively, were received during the year ended June 30, 2014. These incentives are recognized following the grant accounting model, recognizing income ratably over the applicable reporting period as management becomes reasonably assured of meeting the required criteria.

Note 15 – Subsequent Event

On November 4, 2015 (the "Commencement Date"), the Hospital entered into a Management Services Agreement ("Agreement") with Alecto Healthcare Services LLC ("Alecto") to manage the operations of the Hospital and related outpatient care facilities. Alecto shall provide the services of individuals to serve as the executive management team of the Hospital that includes a Chief Executive/Administrative Officer, a Chief Financial Officer/Controller, and a Chief Nursing Officer. The Agreement is for a term of three years, with two automatic extensions of 12 months each unless either party provides notice of its intent to not extend.

Note 15 – Subsequent Event (Continued)

The absolute expiration of the term shall not exceed five years. Either party may terminate this Agreement at any time for cause, however should the Hospital terminate the Agreement prior to the expiration of the twenty-fourth month following the Commencement Date, the Hospital is required to pay Alecto a termination fee equal to the average monthly base compensation which was payable to Alecto for the period after the Commencement Date and prior to the effective date of the termination multiplied by nine, with the termination fee to be paid on the date on which the termination notice is delivered to Alecto. If the Agreement is terminated after the twenty-fourth month following the Commencement Date, the termination fee is based on the average monthly base compensation which was payable to Alecto for the twelve month period immediately prior to the effective date multiplied by the lesser of six and the number of months left in the term of the Agreement. Additionally, the Hospital is required to pay Alecto any severance benefits that are paid by Alecto to any member of the executive management team.

Management fees to be paid under this Agreement include a fixed fee of $1.5 million per year during the term of the Agreement, payable at $125,000 each month, plus 1.25% of the Hospital's monthly Net Operating Revenue from Hospital operations, as defined in the Agreement. In addition to the management fee, Alecto shall also be entitled to productivity awards based on the achievement of certain quality performance standards as set forth in the Agreement, not to exceed $250,000 annually.

REQUIRED SUPPLEMENTARY INFORMATION

ANTELOPE VALLEY HEALTHCARE DISTRICT
SCHEDULES OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2015

Postretirement Health Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a) / c
July 1, 2014	$ -	$ 2,410,488	$ 2,410,488	0.0%	$ 2,362,612	102.0%
July 1, 2012	$ -	$ 3,095,719	$ 3,095,719	0.0%	$ 1,774,716	174.4%
July 1, 2010	$ -	$ 1,387,822	$ 1,387,822	0.0%	$ 1,491,088	93.1%

ANTELOPE VALLEY HEALTHCARE DISTRICT
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
LAST TEN YEARS*
FOR THE YEAR ENDED JUNE 30, 2015

Total pension liability	
Service cost	$ 6,480,319
Interest on total pension liability	18,338,307
Benefit payments	(6,893,033)
Net change in total pension liability	17,925,593
Total pension liability	
Beginning of year	244,717,116
End of year (a)	$ 262,642,709
Plan fiduciary net position	
Employer contributions	$ 13,888,450
Member contributions	146,786
Net investment income	5,222,989
Administrative expenses	(74,122)
Benefit payments	(6,893,033)
Net change in plan fiduciary net position	12,291,070
Plan fiduciary net position	
Beginning of year	133,184,810
End of year (b)	$ 145,475,880
District's net pension liability (a) - (b)	$ 117,166,829
Plan fiduciary net position as a percentage of the total pension liability	55.39%
Covered-employee payroll	$ 145,363,784
District's net pension liability as a percentage of covered-employee payroll	80.60%

* Fiscal Year 2015 was the first year of implementation, therefore only one year is shown.

Notes to Schedule:

Changes in benefit terms – The figures above do not include any liability impact that may have resulted from Plan changes which occurred after July 1, 2014. This applies to voluntary benefit changes as well as offers of service credits.

Change in assumptions – There were no changes in assumptions.

ANTELOPE VALLEY HEALTHCARE DISTRICT
SCHEDULE OF CONTRIBUTIONS
LAST TEN YEARS
FOR THE YEAR ENDED JUNE 30, 2015

Fiscal Year Ended	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Surplus)	Covered Payroll	Contribution as a % of Covered Payroll	Valuation Date	Investment Rate of Return Assumption
6/30/2015	$ 13,497,568	$ 13,888,450	$ (390,882)	$ 145,363,784	9.55%	7/1/2014	7.50%
6/30/2014	17,804,538	7,226,851	10,577,687	141,499,947	5.11%	7/1/2013	8.00%
6/30/2013	16,717,000	8,076,596	8,640,404	136,714,925	5.91%	7/1/2012	8.00%
6/30/2012	15,110,012	6,879,315	8,230,697	138,940,618	4.95%	7/1/2011	8.00%
6/30/2011	12,757,461	7,240,424	5,517,037	134,153,568	5.40%	7/1/2010	8.00%
6/30/2010	11,053,926	5,830,054	5,223,872	127,037,158	4.59%	7/1/2009	8.00%
6/30/2009	10,163,395	5,660,550	4,502,845	107,653,212	5.26%	7/1/2008	8.00%
6/30/2008	10,159,993	2,997,248	7,162,745	100,178,228	2.99%	7/1/2007	8.00%
6/30/2007	10,911,300	2,546,342	8,364,958	93,458,358	2.72%	7/1/2006	8.00%
6/30/2006	9,407,187	1,200,000	8,207,187	85,623,829	1.40%	7/1/2005	8.00%

Notes to Schedule

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Effective July 1, 2014: Individual Entry Age Normal cost method
	Through July 1, 2013: Projected Unit Credit cost method
Amortization Method	Effective July 1, 2014: Closed 25-year amortization, level percentage of pay
	Through July 1, 2013: Open 10-year amortization, level dollar amount
Asset Valuation Method	Market value gains and losses smoothed over four years, with result not less than 80% or greater than 120% of market value
Healthy Mortality	Effective July 1, 2009: Healthy Combined RP-2000 mortality projected to 2015 (2030 for PEPRA participants)
	Through July 1, 2008: 1983 Group Annuity Mortality Tables
Inflation	Effective July 1, 2007: 2.75% per year
	Through July 1, 2006: 3.0% per year
Salary Increases	Effective July 1, 2010: 7.5%-3.5% by duration
	Through July 1, 2009: 5.0% per year with merit increases

ADDITIONAL SUPPLEMENTARY INFORMATION

ANTELOPE VALLEY HEALTHCARE DISTRICT
CONSOLIDATING SCHEDULE OF NET POSITION
JUNE 30, 2015

	AVHD	AVOIC	Other	Total	Eliminations	Consolidated Balance
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES						
CURRENT ASSETS						
Cash and cash equivalents	$ 8,737,028	$ 325,292	$ 3,356,449	$ 12,418,769	$ -	$ 12,418,769
Short-term investments	45,930,235	-	-	45,930,235	-	45,930,235
Restricted cash and investments, current	2,243,184	-	-	2,243,184	-	2,243,184
Patient accounts receivable, net	48,721,975	2,284,211	-	51,006,186	-	51,006,186
Other receivables, net	2,771,523	60,272	-	2,831,795	(208,613)	2,623,182
Supplies inventory	5,778,325	59,162	-	5,837,487	-	5,837,487
Prepaid expenses and other current assets	2,300,608	-	-	2,300,608	-	2,300,608
Estimated third-party payor settlements	3,443,401	-	-	3,443,401	-	3,443,401
Total current assets	119,926,279	2,728,937	3,356,449	126,011,665	(208,613)	125,803,052
NONCURRENT CASH AND INVESTMENTS						
Held by trustee	13,734,648	-	-	13,734,648	-	13,734,648
Less amounts required to meet current obligations	2,206,127	-	-	2,206,127	-	2,206,127
	11,528,521	-	-	11,528,521	-	11,528,521
Other long-term investments	56,500,160	-	-	56,500,160	-	56,500,160
Total noncurrent cash and investments	68,028,681	-	-	68,028,681	-	68,028,681
CAPITAL ASSETS, net	173,499,540	903,924	-	174,403,464	-	174,403,464
OTHER ASSETS	1,061,048	-	1,002,361	2,063,409	(638,258)	1,425,151
Total noncurrent assets	242,589,269	903,924	1,002,361	244,495,554	(638,258)	243,857,296
Total assets	362,515,548	3,632,861	4,358,810	370,507,219	(846,871)	369,660,348
DEFERRED OUTFLOWS OF RESOURCES	4,024,740	-	-	4,024,740	-	4,024,740
Total assets and deferred outflows of resources	$ 366,540,288	$ 3,632,861	$ 4,358,810	$ 374,531,959	$ (846,871)	$ 373,685,088

(Continued)

ANTELOPE VALLEY HEALTHCARE DISTRICT
CONSOLIDATING SCHEDULE OF NET POSITION (CONTINUED)
JUNE 30, 2015

LIABILITIES AND NET POSITION	AVHD	AVOIC	Other	Total	Eliminations	Consolidated Balance
CURRENT LIABILITIES						
Accounts payable and accrued liabilities	$ 14,436,004	$ 909,956	$ 146,426	$ 15,492,386	$ (208,613)	$ 15,283,773
Accrued payroll and related expenses	18,843,306	544,024	-	19,387,330	-	19,387,330
Current maturities of long-term debt	6,593,084	483,443	-	7,076,527	-	7,076,527
Accrued self-insurance liabilities, current portion	7,458,211	-	-	7,458,211	-	7,458,211
Accrued interest payable	2,206,127	-	-	2,206,127	-	2,206,127
Total current liabilities	49,536,732	1,937,423	146,426	51,620,581	(208,613)	51,411,968
LONG-TERM DEBT, net of current portion	116,302,072	76,791	-	116,378,863	-	116,378,863
ACCRUED SELF-INSURANCE LIABILITIES, net of current portion	14,217,000	-	-	14,217,000	-	14,217,000
PENSION AND OPEB LIABILITIES	120,352,845	-	-	120,352,845	-	120,352,845
Total liabilities	300,408,649	2,014,214	146,426	302,569,289	(208,613)	302,360,676
NET POSITION						
Members' contributed capital	-	1,000,000	280,000	1,280,000	(1,280,000)	-
Net investment in capital assets	64,339,032	343,690	-	64,682,722	-	64,682,722
Restricted, expendable for:						
Workers' compensation collateral	37,057	-	-	37,057	-	37,057
Specific operating activities	158,790	-	522,570	681,360	-	681,360
Restricted, nonexpendable for minority interests	-	-	-	-	459,004	459,004
Unrestricted	1,596,760	274,957	3,409,814	5,281,531	182,738	5,464,269
Total net position	66,131,639	1,618,647	4,212,384	71,962,670	(638,258)	71,324,412
Total liabilities and net position	$ 366,540,288	$ 3,632,861	$ 4,358,810	$ 374,531,959	$ (846,871)	$ 373,685,088

See accompanying notes of independent auditors.

ANTELOPE VALLEY HEALTHCARE DISTRICT
CONSOLIDATING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

	AVHD	AVOIC	Other	Total	Eliminations	Consolidated Balance
OPERATING REVENUES						
Net patient service revenue, net	$ 380,028,895	$ 14,222,902	$ -	$ 394,251,797	$ -	$ 394,251,797
Other revenue	8,088,115	21,151	-	8,109,266	(735,373)	7,373,893
Total operating revenue	388,117,010	14,244,053	-	402,361,063	(735,373)	401,625,690
OPERATING EXPENSES						
Salaries and wages	164,458,891	3,594,517	106,075	168,159,483	-	168,159,483
Employee benefits	55,604,475	713,174	-	56,317,649	-	56,317,649
Fees to individuals and organizations	21,152,534	6,223,598	2,200	27,378,332	-	27,378,332
Purchased services	24,301,705	-	-	24,301,705	-	24,301,705
Supplies and other expenses	100,521,559	3,252,172	187,476	103,961,207	(1,033,465)	102,927,742
Depreciation and amortization	13,844,507	658,982	-	14,503,489	-	14,503,489
Total operating expenses	379,883,671	14,442,443	295,751	394,621,865	(1,033,465)	393,588,400
OPERATING INCOME (LOSS)	8,233,339	(198,390)	(295,751)	7,739,198	298,092	8,037,290
NONOPERATING REVENUES (EXPENSES)						
Grant revenue and contributions	2,966,314	-	408,869	3,375,183	314,561	3,689,744
Investment income	908,321	49	77,665	986,035	-	986,035
Interest expense	(5,749,123)	(49,086)	-	(5,798,209)	-	(5,798,209)
Total nonoperating revenues (expenses), net	(1,874,488)	(49,037)	486,534	(1,436,991)	314,561	(1,122,430)
Income (loss) before capital contributions	6,358,851	(247,427)	190,783	6,302,207	612,653	6,914,860
CAPITAL CONTRIBUTIONS	314,561	-	-	314,561	(314,561)	-
Change in net position	6,673,412	(247,427)	190,783	6,616,768	298,092	6,914,860
NET POSITION, Beginning of year, previously reported	111,091,650	1,866,074	4,021,601	116,979,325	(936,350)	116,042,975
Cumulative effect of change in accounting principle	(51,633,423)	-	-	(51,633,423)	-	(51,633,423)
NET POSITION, Beginning of year, as restated	59,458,227	1,866,074	4,021,601	65,345,902	(936,350)	64,409,552
NET POSITION, End of year	$ 66,131,639	$ 1,618,647	$ 4,212,384	$ 71,962,670	$ (638,258)	$ 71,324,412

See accompanying notes of independent auditors.

ANTELOPE VALLEY HEALTHCARE DISTRICT
CONSOLIDATING SCHEDULE OF NET POSITION
JUNE 30, 2014

	AVHD	AVOIC	Other	Total	Eliminations	Consolidated Balance
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	$ 12,235,574	$ 518,031	$ 3,270,757	$ 16,024,362	$ -	$ 16,024,362
Short-term investments	34,248,517	-	-	34,248,517	-	34,248,517
Restricted cash and investments, current	2,329,554	-	-	2,329,554	-	2,329,554
Patient accounts receivable, net	49,478,055	2,380,259	-	51,858,314	-	51,858,314
Other receivables, net	4,562,069	60,272	-	4,622,341	(392,290)	4,230,051
Supplies inventory	5,441,458	53,433	-	5,494,891	-	5,494,891
Prepaid expenses and other current assets	2,515,141	576	-	2,515,717	-	2,515,717
Estimated third-party payor settlements	4,345,044	-	-	4,345,044	-	4,345,044
Total current assets	115,155,412	3,012,571	3,270,757	121,438,740	(392,290)	121,046,450
NONCURRENT CASH AND INVESTMENTS						
Held by trustee	14,074,620	-	-	14,074,620	-	14,074,620
Less amounts required to meet current obligations	2,292,554	-	-	2,292,554	-	2,292,554
	11,782,066	-	-	11,782,066	-	11,782,066
Other long-term investments	58,523,931	-	-	58,523,931	-	58,523,931
Total noncurrent cash and investments	70,305,997	-	-	70,305,997	-	70,305,997
CAPITAL ASSETS, net	177,001,120	1,426,923	-	178,428,043	-	178,428,043
OTHER ASSETS	1,107,188	-	1,024,442	2,131,630	(936,350)	1,195,280
Total noncurrent assets	248,414,305	1,426,923	1,024,442	250,865,670	(936,350)	249,929,320
Total assets	$ 363,569,717	$ 4,439,494	$ 4,295,199	$ 372,304,410	$ (1,328,640)	$ 370,975,770

(Continued)

See accompanying notes of independent auditors.

ANTELOPE VALLEY HEALTHCARE DISTRICT
CONSOLIDATING SCHEDULE OF NET POSITION (CONTINUED)
JUNE 30, 2014

	AVHD	AVOIC	Other	Total	Eliminations	Consolidated Balance
LIABILITIES AND NET POSITION						
CURRENT LIABILITIES						
Accounts payable and accrued liabilities	$ 18,766,703	$ 978,487	$ 273,598	$ 20,018,788	$ (392,290)	$ 19,626,498
Accrued payroll and related expenses	17,038,421	593,316	-	17,631,737	-	17,631,737
Current maturities of long-term debt	6,633,896	470,414	-	7,104,310	-	7,104,310
Accrued self-insurance liabilities, current portion	7,765,598	-	-	7,765,598	-	7,765,598
Accrued interest payable	2,292,554	-	-	2,292,554	-	2,292,554
Total current liabilities	52,497,172	2,042,217	273,598	54,812,987	(392,290)	54,420,697
LONG-TERM DEBT, net of current portion	122,850,327	531,203	-	123,381,530	-	123,381,530
ACCRUED SELF-INSURANCE LIABILITIES, net of current portion	14,690,141	-	-	14,690,141	-	14,690,141
PENSION AND OPEB LIABILITIES	62,440,427	-	-	62,440,427	-	62,440,427
Total liabilities	252,478,067	2,573,420	273,598	255,325,085	(392,290)	254,932,795
NET POSITION						
Members' contributed capital	-	1,000,000	280,000	1,280,000	(1,280,000)	-
Net investment in capital assets	61,591,517	425,306	-	62,016,823	-	62,016,823
Restricted, expendable for:						
Workers' compensation collateral	37,000	-	-	37,000	-	37,000
Specific operating activities	122,304	-	529,970	652,274	-	652,274
Restricted, nonexpendable for minority interests	-	-	-	-	534,814	534,814
Unrestricted	49,340,829	440,768	3,211,631	52,993,228	(191,164)	52,802,064
Total net position	111,091,650	1,866,074	4,021,601	116,979,325	(936,350)	116,042,975
Total liabilities and net position	$ 363,569,717	$ 4,439,494	$ 4,295,199	$ 372,304,410	$ (1,328,640)	$ 370,975,770

See accompanying notes of independent auditors.

ANTELOPE VALLEY HEALTHCARE DISTRICT
CONSOLIDATING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

	AVHD	AVOIC	Other	Total	Eliminations	Consolidated Balance
OPERATING REVENUES						
Net patient service revenue, net	$ 335,331,086	$ 14,002,292	$ -	$ 349,333,378	$ -	$ 349,333,378
Other revenue	10,824,455	18,580	-	10,843,035	(226,931)	10,616,104
Total operating revenue	346,155,541	14,020,872	-	360,176,413	(226,931)	359,949,482
OPERATING EXPENSES						
Salaries and wages	156,929,119	3,567,844	149,924	160,646,887	-	160,646,887
Employee benefits	53,651,961	582,513	-	54,234,474	-	54,234,474
Fees to individuals and organizations	20,974,873	6,245,525	-	27,220,398	-	27,220,398
Purchased services	22,018,850	-	2,453	22,021,303	-	22,021,303
Supplies and other expenses	80,100,354	2,810,385	201,227	83,111,966	(276,236)	82,835,730
Depreciation and Amortization	11,716,152	794,539	10,542	12,521,233	-	12,521,233
Total operating expenses	345,391,309	14,000,806	364,146	359,756,261	(276,236)	359,480,025
OPERATING INCOME (LOSS)	764,232	20,066	(364,146)	420,152	49,305	469,457
NONOPERATING REVENUES (EXPENSES)						
Grant revenue and contributions	3,225,494	-	617,069	3,842,563	136,400	3,978,963
Investment income	1,130,464	4	112,015	1,242,483	-	1,242,483
Interest expense	(5,294,676)	(56,891)	-	(5,351,567)	-	(5,351,567)
Total nonoperating revenues (expenses), net	(938,718)	(56,887)	729,084	(266,521)	136,400	(130,121)
Income (loss) before capital contributions	(174,486)	(36,821)	364,938	153,631	185,705	339,336
CAPITAL CONTRIBUTIONS	136,400	-	-	136,400	(136,400)	-
Change in net position	(38,086)	(36,821)	364,938	290,031	49,305	339,336
NET POSITION, Beginning of year, as adjusted	111,129,736	1,902,895	3,656,663	116,689,294	(985,655)	115,703,639
NET POSITION, End of year, as adjusted	$ 111,091,650	$ 1,866,074	$ 4,021,601	$ 116,979,325	$ (936,350)	$ 116,042,975

See accompanying notes of independent auditors.